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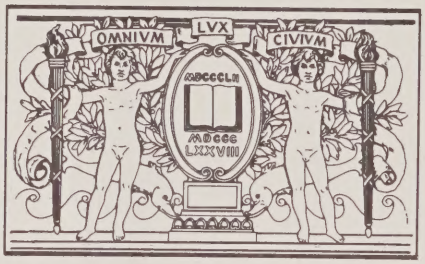

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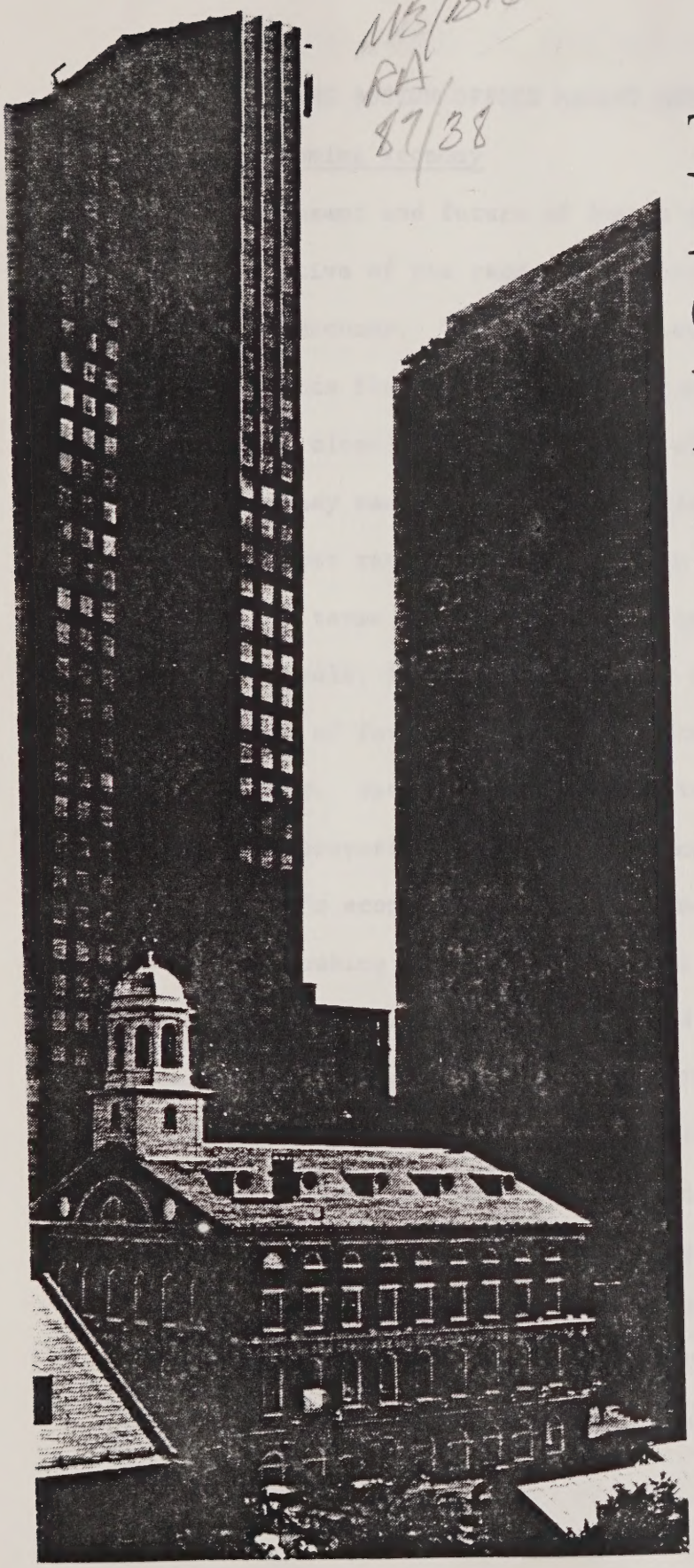

THE BOSTON OFFICE MARKET AND IT S FUTURE PERSPECTIVE

Spring '87

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THE BOSTON OFFICE MARKET AND ITS FUTURE PERSPECTIVE

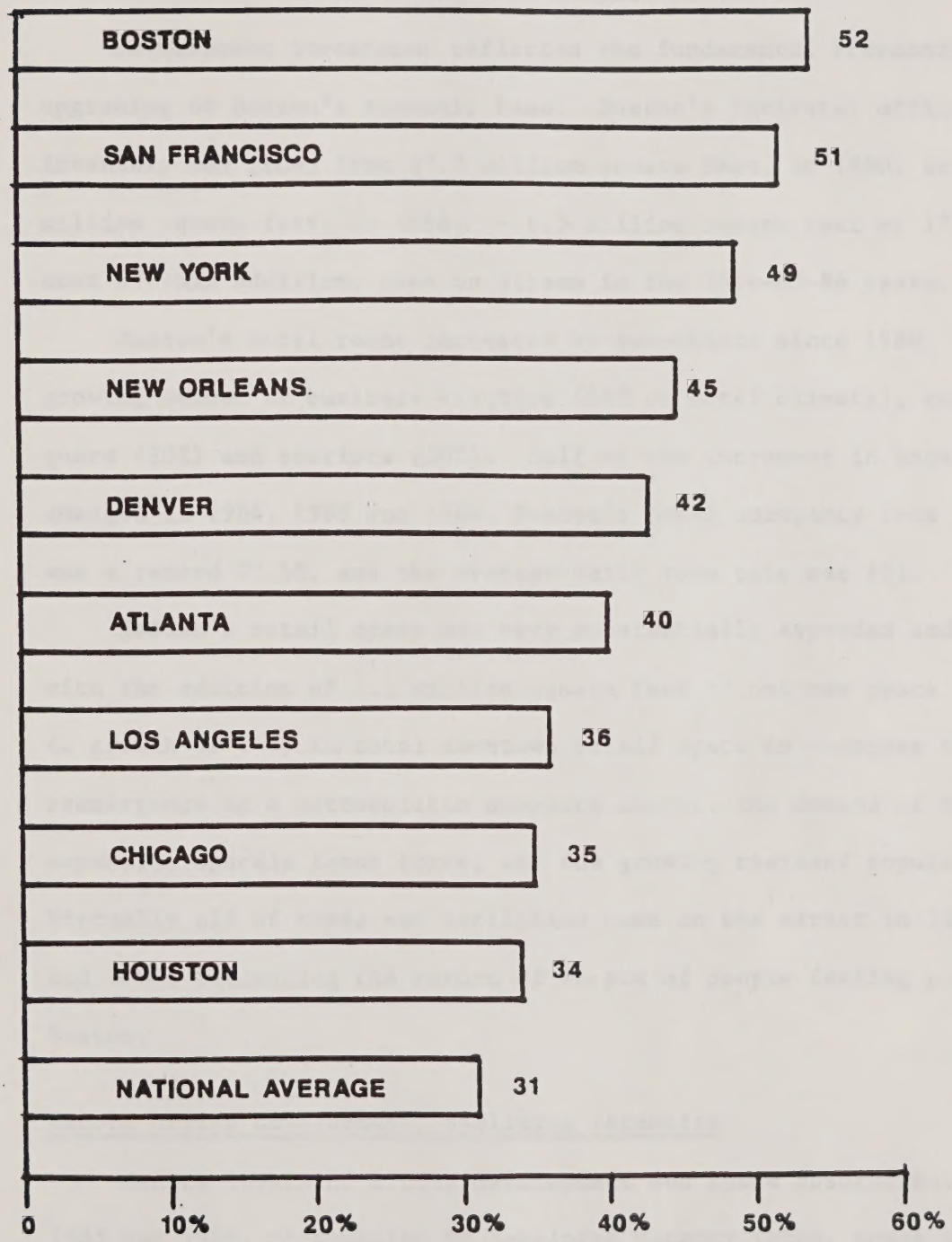
Boston's Booming Economy

The present and future of Boston's office market must be seen in the perspective of the recent experience and outstanding prognoses for the city's economy. The decade long record of good economic health and fine prospects flow from transformation of the base of the economy attuning it closely to those sectors of business and professional service, money management, communication, higher education and medicine expanding most rapidly nationally. An upgrading and upscaling city economy, in terms of composition and quality of industry and occupations and wage levels, is attracting a flow of foreign investors reminiscent of the role of foreign capital in Boston's beginnings in the 17th and 18th century. Special factors enhancing value appreciation of commercial property in Boston have encouraged this trend.

Boston's economy in 1986 experienced another banner year following a record breaking 1984 and substantial advances in 1985. These years were unique, in terms of unprecedented levels of job creation, commercial development and housing. For the future, optimistic prospects to 1990 and the year 2000, flowing from national prognoses and the record of performance, transformation, and development investment interest on which they are based, suggest the potential for large gains.

In the three year period, 1984-1986, Boston gained 36,000 jobs (12,000 jobs a year), in comparison with 7,500 annually in the overall 1980-1986 period. Boston's unemployment rate at year-end 1986 was 3.5 percent.

PERCENT OF JOBS IN THE SERVICES SECTOR; COMPARISON OF MAJOR CITIES



NOTE: Private Services include: Transportation, Communication, and Public Utilities; Finance, Insurance, ad Real Estate; and Business, Professional, Health and Higher Education Services.

SOURCE: U.S. Department of Commerce, Bureau of Economic Analysis

Development construction, to accommodate this job growth, totalled $3.5 billion in the 1984-86 period, or $1.2 billion a year (total development cost at 1985 prices), in comparison with an annual average of $760 million a year in the 1980-83 period.

Development investment reflected the fundamental broadening and upgrading of Boston's economic base. Boston's (private) office inventory had grown from 37.2 million square feet, in 1980, to 43.7 million square feet, in 1986; (+ 6.5 million square feet or 17%), but most of this addition, came on stream in the 1984-85-86 years.

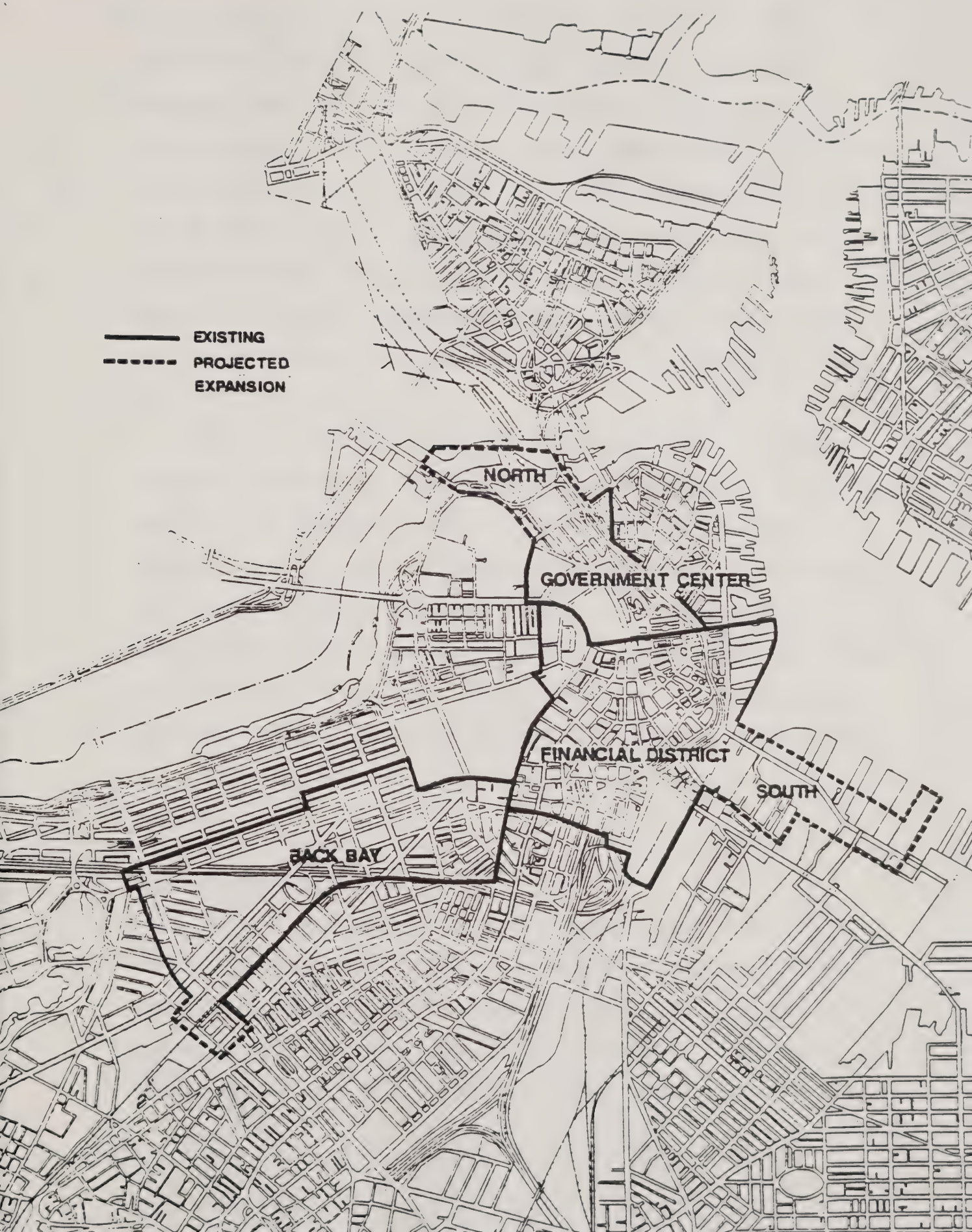
Boston's hotel rooms increased by two-thirds since 1980, to serve the growing number of business visitors (50% of hotel clients), convention goers (30%) and tourists (20%). Half of the increment in hotel rooms emerged in 1984, 1985 and 1986. Boston's hotel occupancy rate in 1986 was a record 72.5%, and the average daily room rate was $91.

Boston's retail space was very substantially expanded and upgraded with the addition of 1.1 million square feet of net new space since 1980 (a growth of 14%) in total downtown retail space in response to Boston's reemergence as a metropolitan shopping center, the demand of the expanded, upscale labor force, and the growing resident population. Virtually all of these new facilities came on the market in 1984, 1985 and 1986, reflecting the return of an era of people feeling good about Boston.

Record Office Development, Declining Vacancies

Record levels of office development and space absorption, in 1984, 1985 and 1986, accompanied by declining vacancy rates, speak to the good health of Boston's office market as 1987 began. Vacancies for Class A Office space had peaked at 9% in second quarter 1985, following the

BOSTON'S CLASS A OFFICE MARKETS



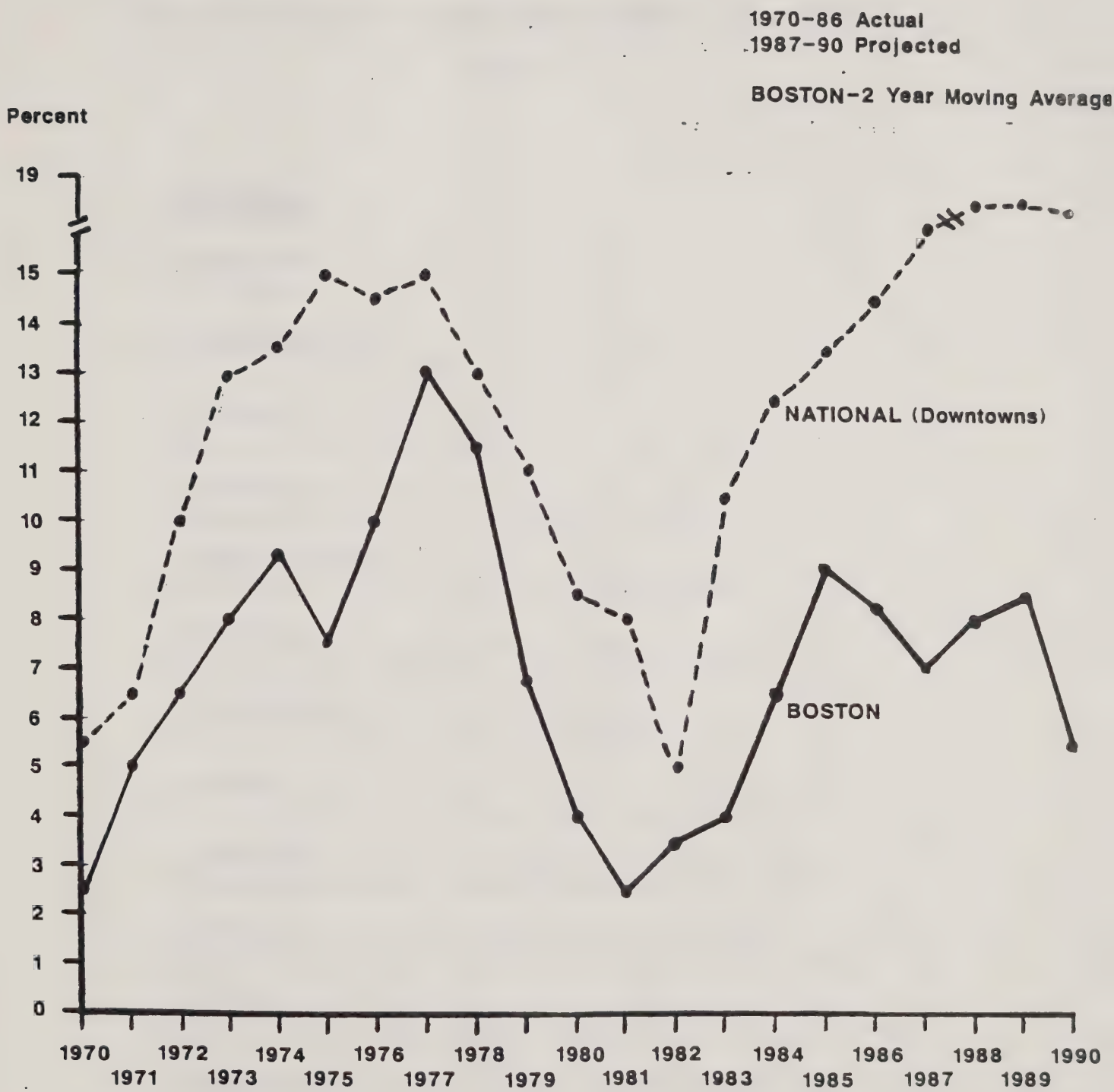
extraordinary volume of office building in Boston in 1984, but diminished smartly to 7% in second quarter 1986, and 6% in the fourth quarter as demand for office space continued unabated while the net new supply of Class A space slackened. The Boston experience contrasts with that of the suburban ring (where vacancies have risen to 15%), and with that of the Nation's larger cities and metro areas (where vacancy rates are 14% and 18%, respectively). Among 27 large cities, Boston's year-end 1986 office vacancy rate of 6% may be the lowest of any large city.

Boston's office market will ease moderately in 1987 and 1988 as 5 million square feet of Class A office space are completed. Vacancies may rise to 8% at year-end 1987, and 11% at year-end 1988 (with projected moderate levels of demand and absorption at 1.6 to 1.8 million square feet each year). Thereafter, however, with few additions to supply, vacancies will recede to 7% to 8% by year-end 1989, and 4% to 5% by year-end 1990, creating an important window of opportunity. This perspective draws on projections of the likely range of demand suggested by office employment growth prognoses and recent trends in office space absorption.

The Class A Office Market

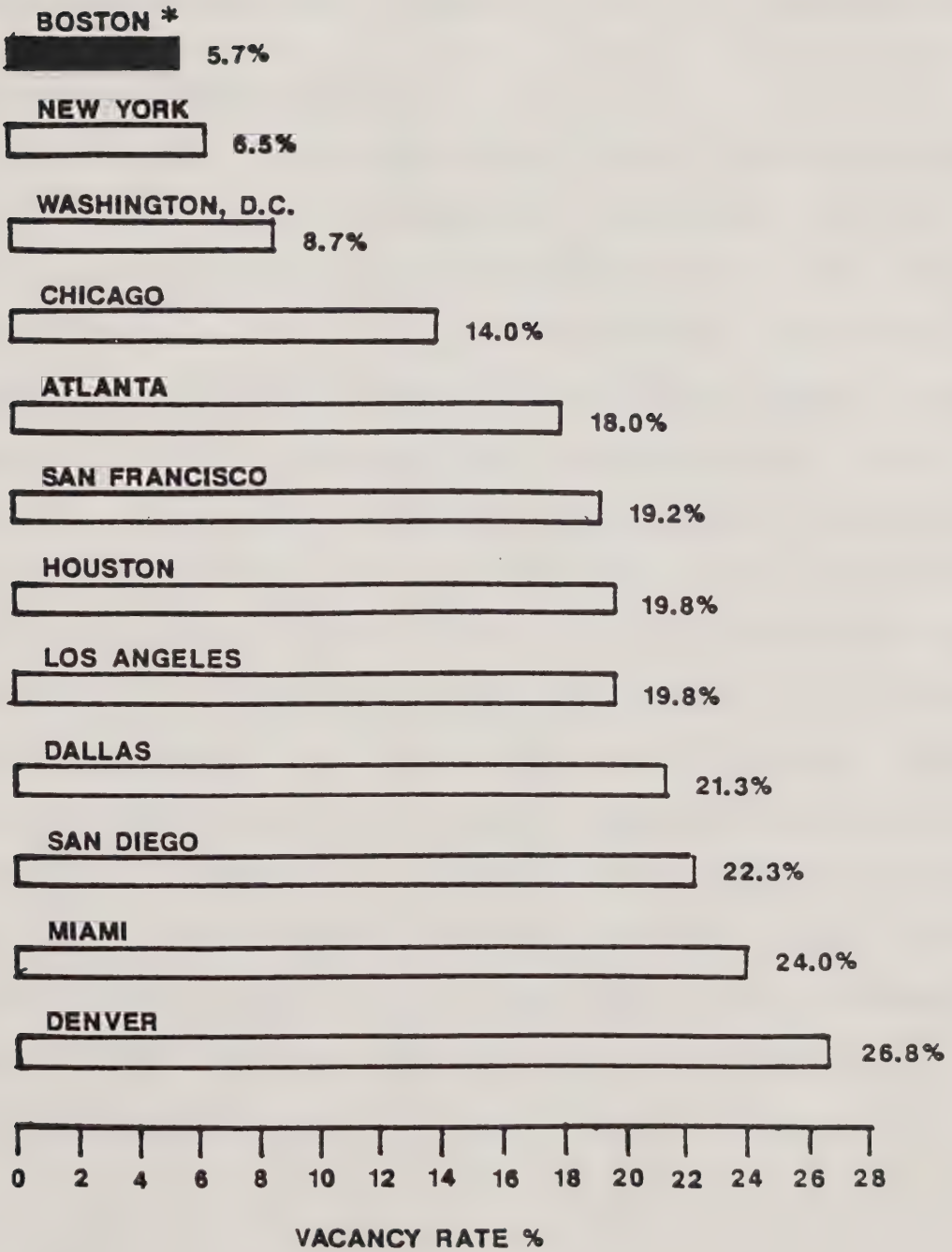
Class A space (made up of buildings constructed since 1960 or renovated to new condition, commanding rentals of $20 a square foot or more), is expanding more rapidly than the total office inventory, drawing on both new construction and the renovation of older space (having reduced, thereby, the share of the non-Class A inventory from

BOSTON AND NATIONAL CLASS "A" VACANCY RATES
1970 - 1990



SOURCE: Boston Redevelopment Authority,
BOSTON BUILDING OWNERS AND MANAGERS ASSOC.,
BOMA INTERNTIONAL, SPAULDNG & SLYE,
THE OFFICE NETWORK (Houston), and
TORTO-WHEATON ASSOCIATES.

VACANCY RATES FOR
TWELVE MAJOR DOWNTOWN OFFICE MARKETS
1986



SOURCE; The Office Network, Houston, Oct. 1986

* Boston's rate from B.R.A. for Winter, 1986. (Class A)

60%, in 1978, to 37%, in 1986). Information on the construction schedule of approved projects through 1990 indicates that this trend will continue with the growth of the Class A inventory to 34 million square feet, representing an 1986-1990 annual growth rate of 6%, similar to the actual average annual absorption rate of the last three years.

The Financial District Market

The Financial District embraces the principal office market in Boston, and will sustain its dominance in the next four years, and beyond, spreading to the Fort Point Channel Area in the 1990's. The Financial District office market is broad-based with concentrations of expanding firms in law, accounting, engineering, architecture, money management, business information, and communications, and a solid footing in the more stable large banking organizations. Judging by the known pipeline of supply, 1987-1990, the Financial District will add 4.5 million square feet of Class A office space, out of a city-wide Class A increment of 6.4 million square feet (70%), including 3.8 million square feet of Tower space (73% of the Financial District addition). Beyond 1990, the general outlines of the growth economy and office space demand and supply are emerging as strong shadows not yet etched in concrete. Nevertheless, the prospective strength of the Boston economy and the demand for office space, on the one hand, and the role of Financial District office development are reasonably clear, and indicate a continued preeminence.

The Back Bay Market

The Back Bay office market, in comparison with that of the Financial District, is expanding more rapidly, has a lower vacancy rate, and will extend its reach to envelope Parcel 18, soon after the relocated Orange Line begins running this Spring. The Back Bay office economy is smaller than that of the Financial District (though larger in insurance companies), with specialization in advertising and other business and professional services. Though the Back Bay Class A office inventory supply is scheduled to grow by 1.4 million square feet, from 1987 through 1990, only 700,000 square feet of Class A space will be completed in 1988 in the Back Bay, and vacant space may be expected to dwindle. Vacant space may virtually disappear in Back Bay for two to three quarters after mid-1987, and spill-over demand may flow to the Financial District Market. In the second quarter of 1990, vacancies would rise to 6% to 8%, following the completion of the Parcel 18 project, falling thereafter to 4% to 6%, by year-end.

Special Features of Boston's Office Economy

Quality Upgrading

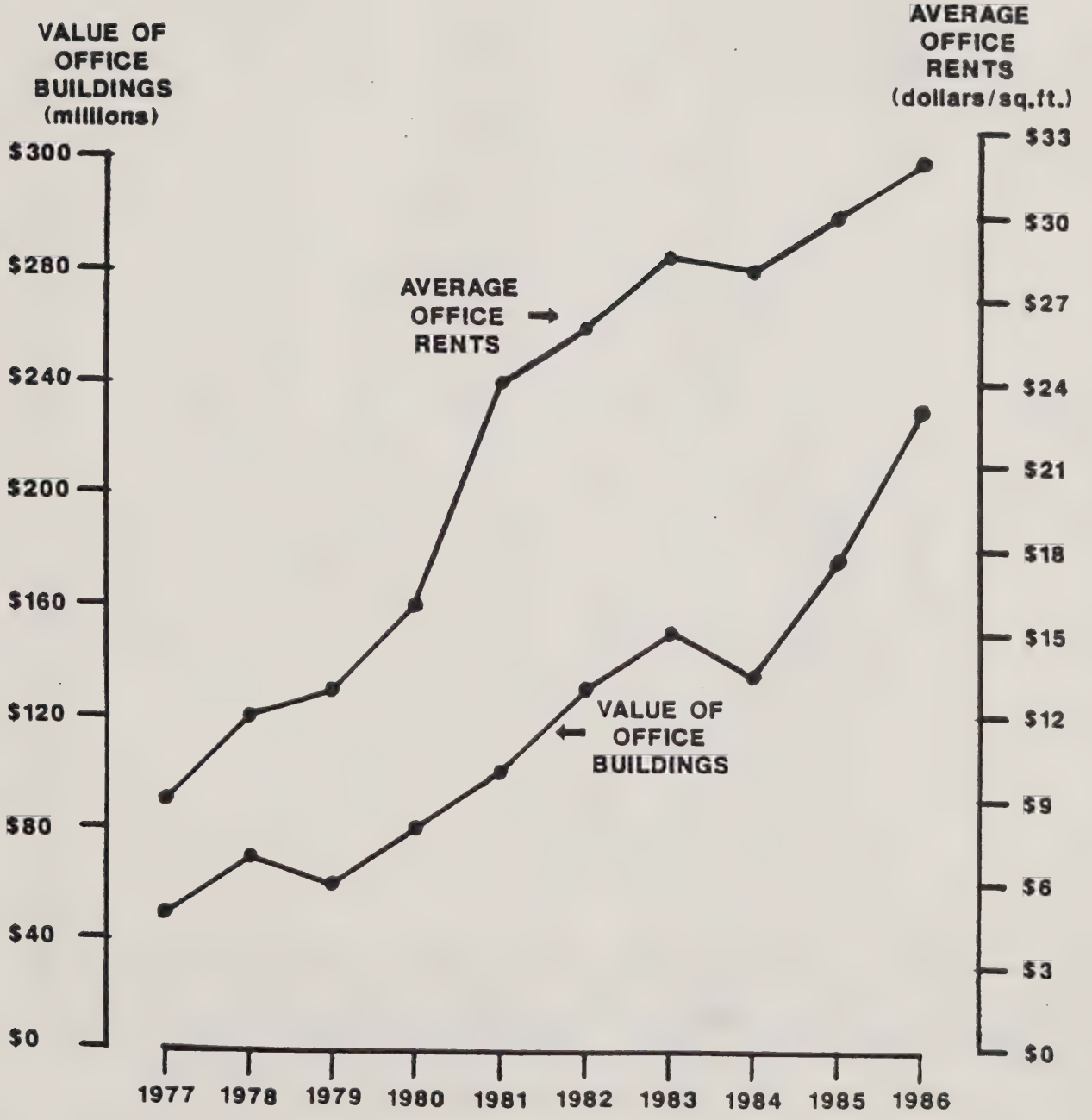
The upgrading of the quality of Boston's office supply responded, in part, to a significant upscale shift in the quality of demand. Between 1976 and 1983, employment in business and professional services activities firms, mainly small and medium sized, and with a richer mix of professional, managerial and technical occupations, expanded more rapidly than in the banking and insurance firms with their phalanxes of lower skilled secretarial and clerical workers. Employment levels in

firms with 500 or more workers actually fell by 7%, while jobs in firms with 50 to 500 workers increased by more than 50%. The enhancement of the quality of demand supported the rise in Boston office rental rates which are second only to those in New York and Washington, D.C. These trends in the industry shift in employment are projected to continue.

Value Appreciation

Value appreciation has emerged as a measure of the preference for Boston office buildings as a long-term investment, with some recently constructed buildings reselling at prices beyond development costs, reflecting rising rentals, low vacancies, declining interest and property tax rates, and outstanding long-term demand prospects in a market with land scarcity and a closely managed project approval process. Even though rentals have been rising, a recent survey of tenant firms showed a median and mode office rental as a percent of gross income of 8 to 10%, indicating that Boston office rents are not out of line with the norm of ability to pay. Also, the recently enacted federal tax reform may favor investment in Boston office buildings relative to those of the suburban office parks and that of other large cities and metro areas with their greater dependency on tax syndication. And with the annual increment in the city's property tax rate limited to 2½ percent, while property values have been and are expected to continue to rise at a much higher rate, property tax rates are declining and this trend will continue.

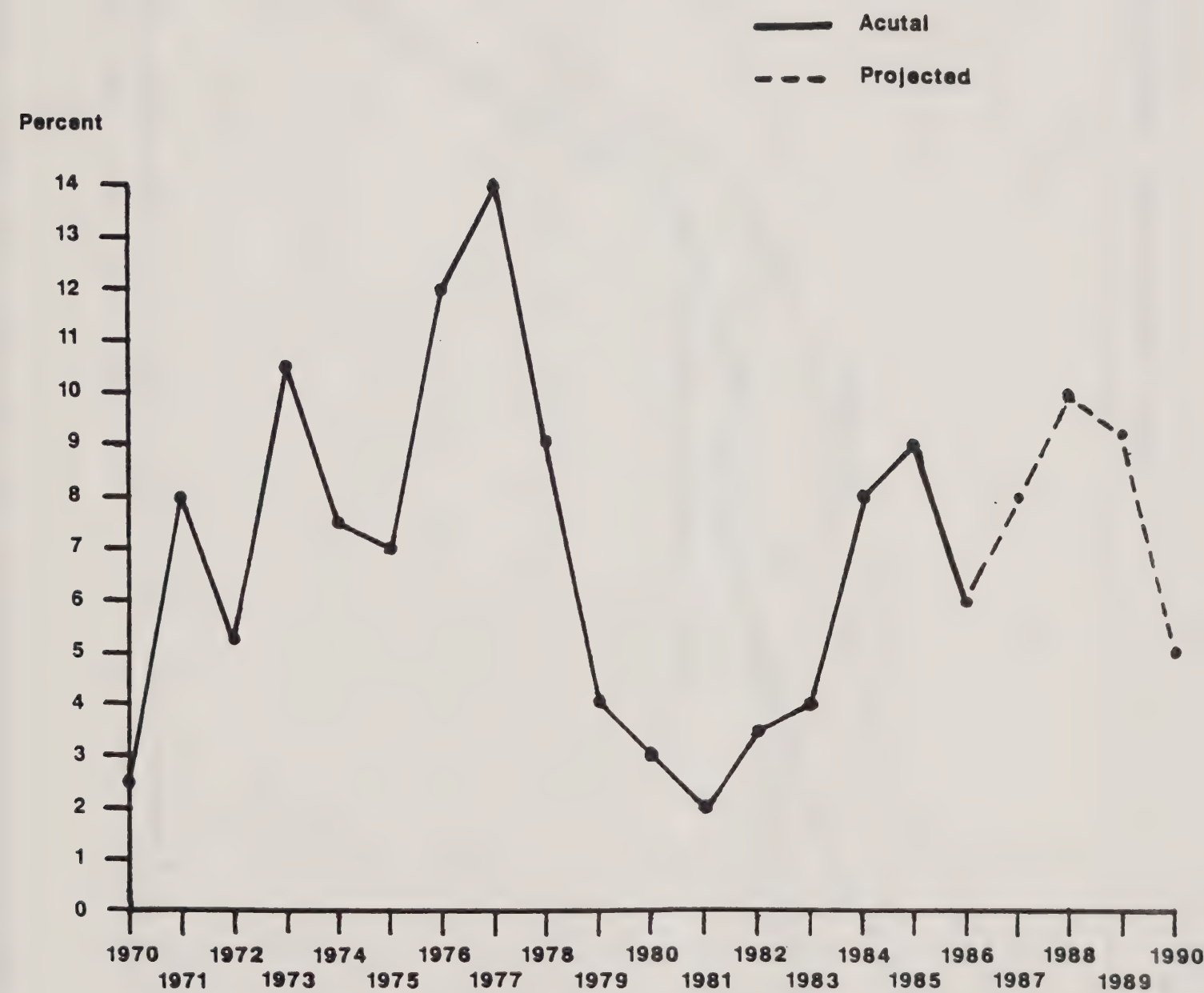
BOSTON PROPERTY VALUES AND RENTS PER SQUARE FOOT FOR CLASS "A" OFFICE BUILDINGS (1977 - 1986)



SOURCE: Boston Redevelopment Authority

BOSTON CLASS "A" OFFICE VACANCY RATES

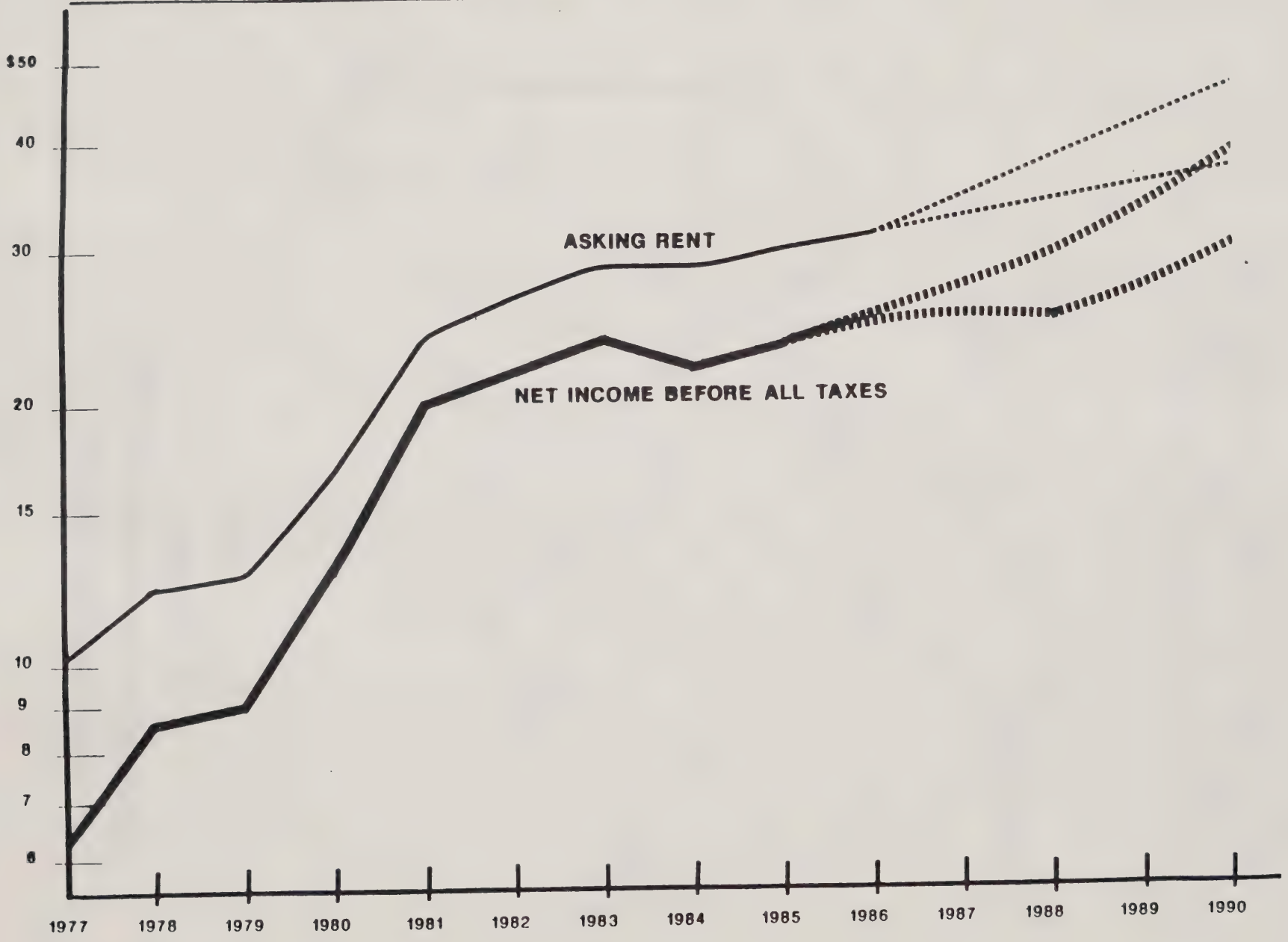
(1970 - 1990)



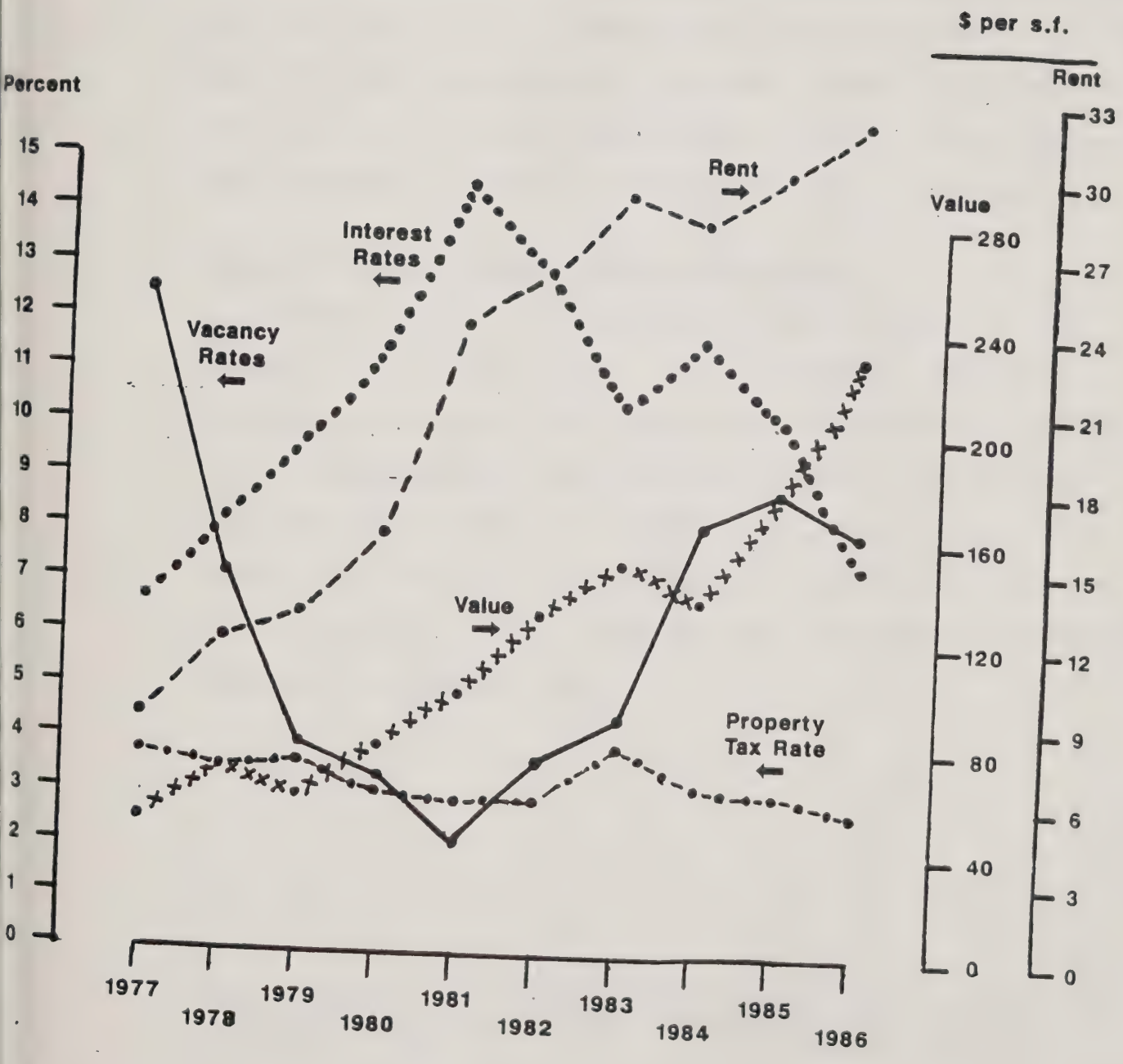
SOURCE: Boston Redeveopment Authority

Chart II

RENT TRENDS Existing Class A Office Space



FACTORS ENHANCING COMMERCIAL PROPERTY VALUES IN BOSTON 1977 - 1986



SOURCE: Boston Redevelopment Authority

The New Investor Interest In Boston

Quality upgrading and value appreciation, as indexes of a strong long-term investment market, have spurred the broadening of international investment interest in Boston development, especially office buildings.

Since 1978 foreign direct investment has grown at a rate more than three times that of the U.S. production of goods and services,[1] with the appeal of a more secure and stable investment climate. "New England is also one of the areas where foreign-owned business has reached greatest local importance," attracted by the region's economic renaissance.

Managing The Growth Economy, Planning and Zoning,

Managing Boston's growth economy is a cardinal element of city development policy which is deftly marshalled through a systematic project approval process. Newly adopted and proposed planning and zoning tools, including allowable heights and use by downtown sub-districts will facilitate the management of office space supply in relation to demand. Beyond 1990, the office market can be successfully managed by constraining office supply, in time and place, in relation to demand and planning and development goals.

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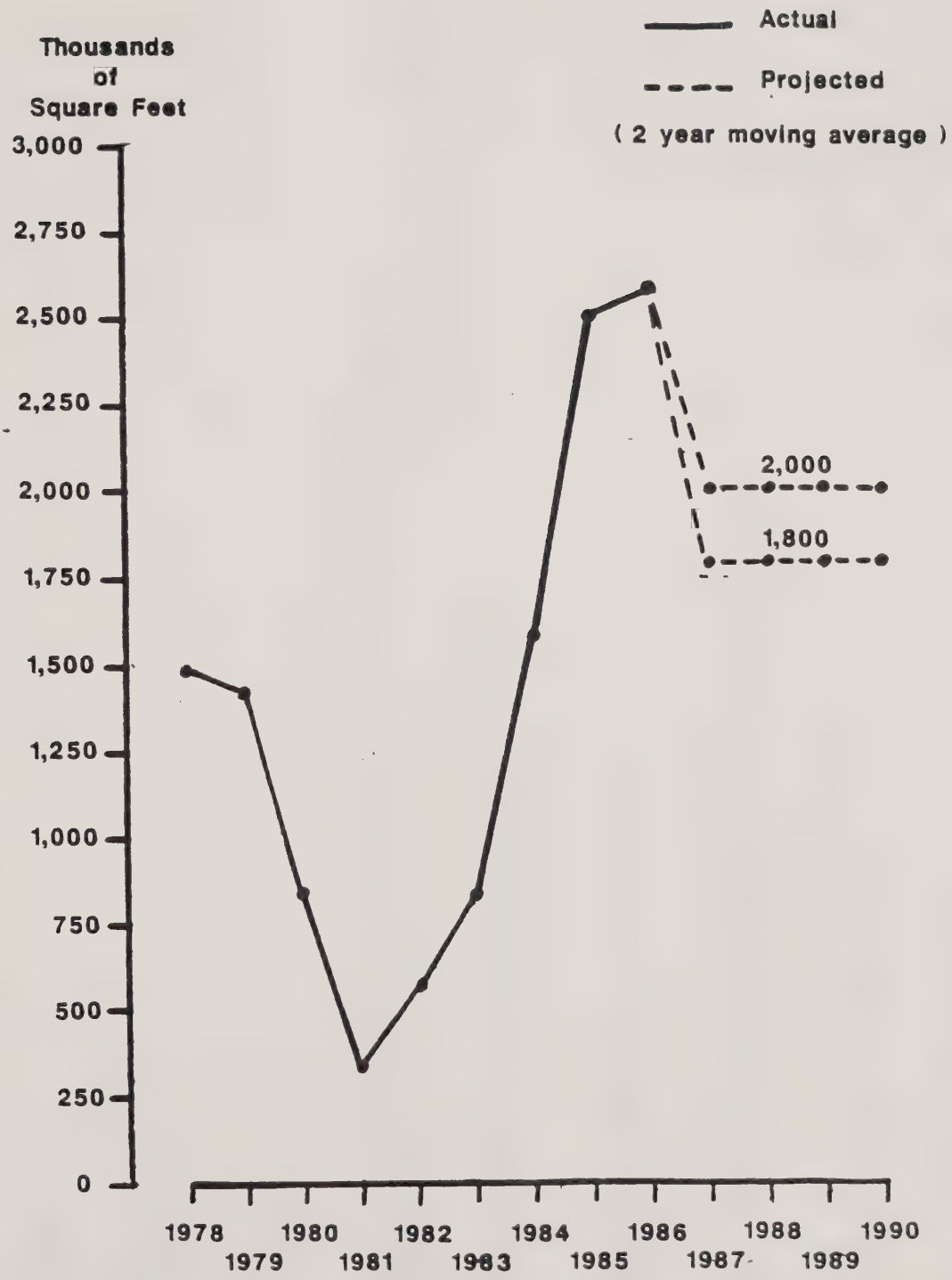
[1] Jane Sneddon Little, "Foreign Direct Investment in New England," Federal Reserve Bank of Boston, New England Economic Review, Mar./Apr. 1985.

BOSTON CLASS "A" OFFICE DEMAND

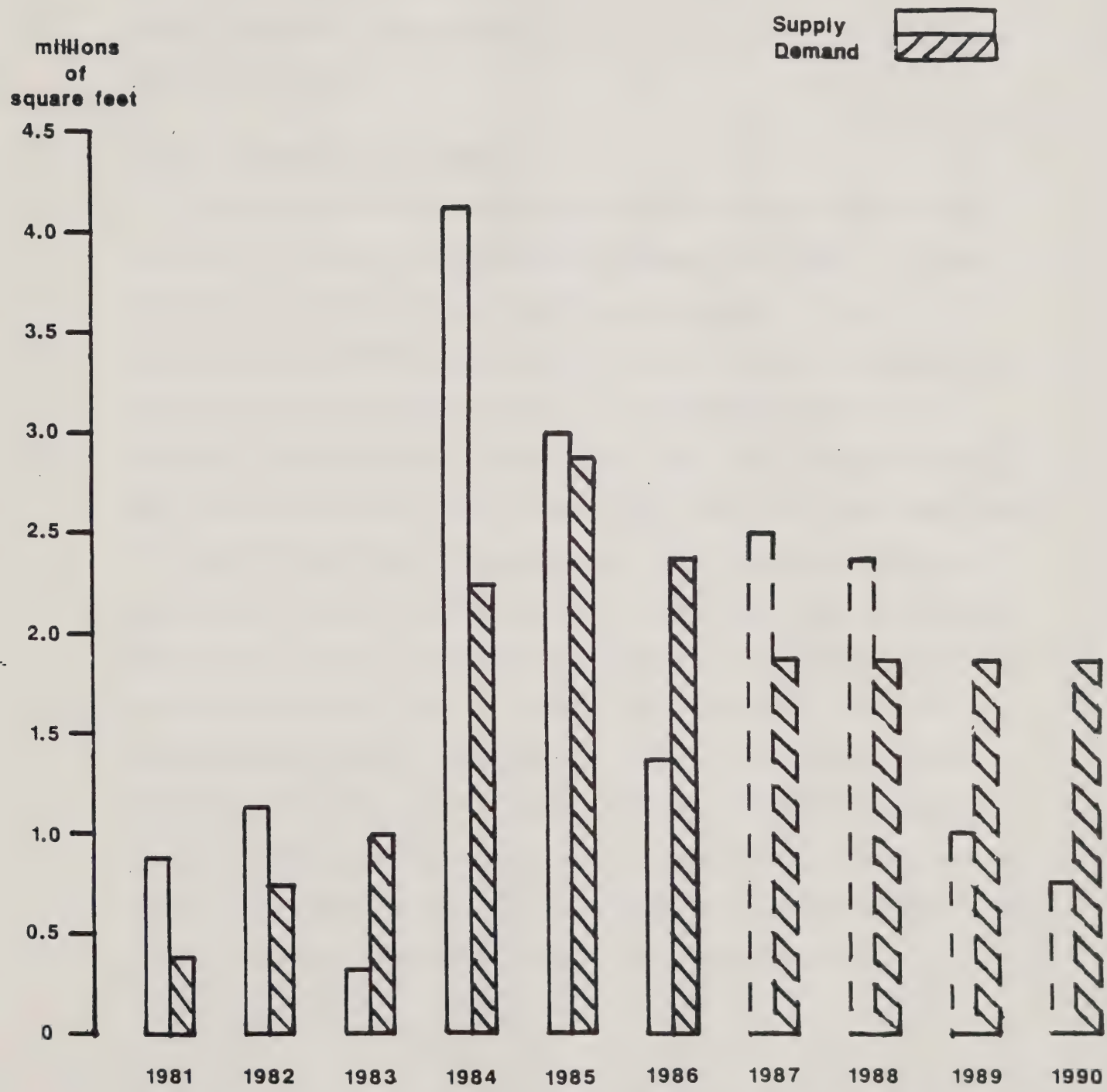
(1978 - 1990)



SOURCE: Boston Redevelopment Authority, and Spaulding & Slye

BOSTON CLASS "A" OFFICE SUPPLY AND DEMAND

(1981 - 1990)



SOURCE: Boston Redevelopment Authority

Proposed downtown planning and zoning measures are designed to address concerns on (1) building height and density and transportation congestion and the desire to favor housing an public open space land use, where feasible, and (2) the need to channel future development to growth corridors, the downtown periphery, and neighborhood development in suitable areas.

Office Location in the 1990's

There will be an evolution in the location of new office space in the 1990's. Office location in the new decade will favor (1) areas peripheral to downtown (Fort Point Channel and North Station), (2) growth corridors (Bedford-Essex and South Station), (3) neighborhoods (Charlestown Navy Yard and Parcel 18), (4) the mid-town cultural district, and (5) limited growth in Back Bay. The Financial District will encompass the Fort Point Channel with large scale new construction. The Bedford Essex-South Station corridor will have substantial new construction as well as the build-out of previously approved projects. North Station and the Government district will have limited development. The Charlestown Navy Yard will expand its office park. Parcel 18 will complement the Back Bay office market. The mid-town cultural district will have some limited development. Back Bay will see limited new office development. Altogether, some 15 million square feet of net new office space (more or less) may come on the Boston office market in the 1990's responding to projected demand and project proposals.

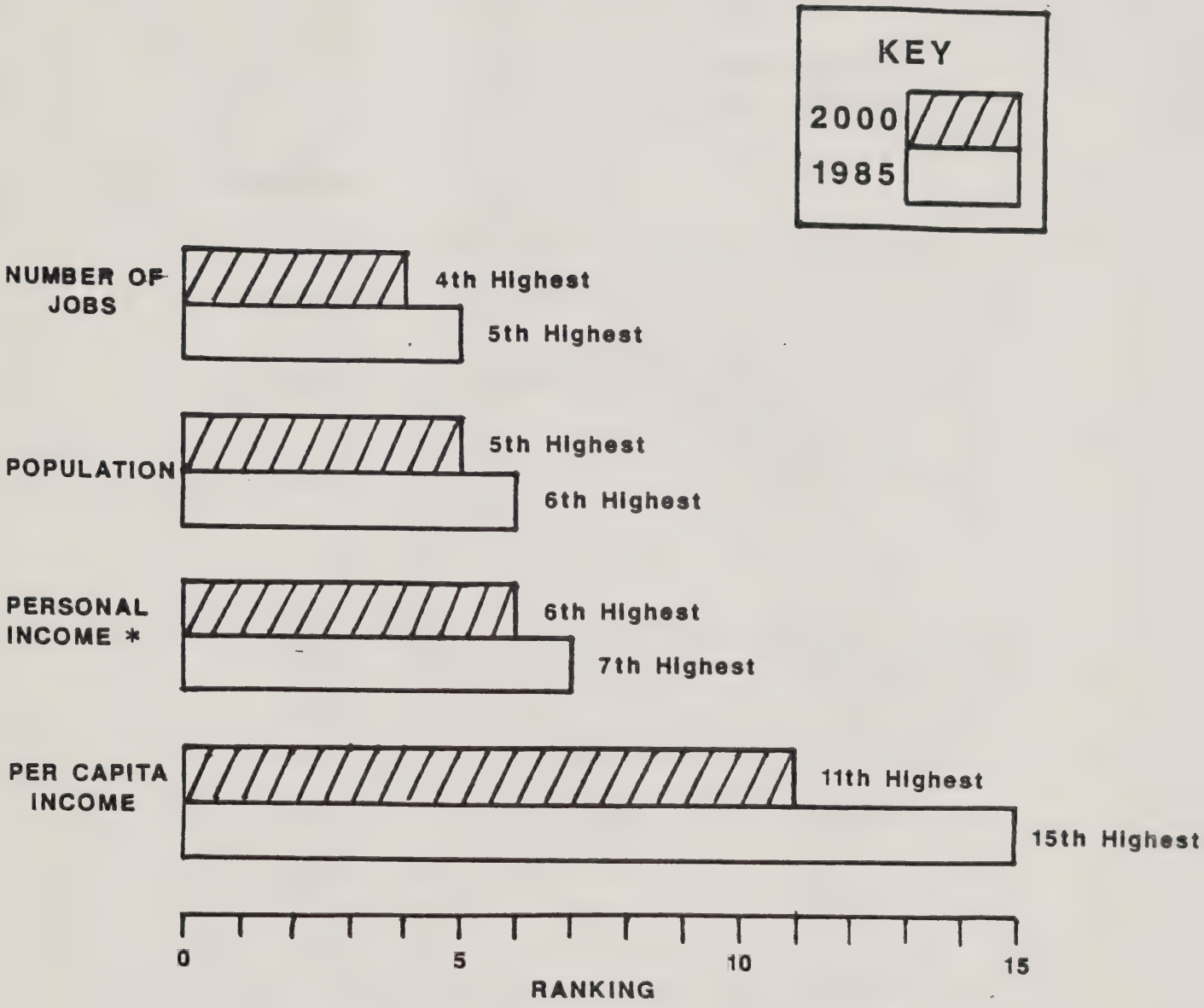
The Future of the Boston Office Economy
Long-Term Prognoses To The Year 2000

Recently reported national analyses and projections for New England, Massachusetts and the Boston Metro Region, and the implications for the city's economy, highlight the extraordinary prospects for the Boston office market. Reports of the U.S. Bureau of Economic Analysis, in 1985, with projections to the year 2000 and beyond, identified New England as "a high growth region" and forecast very substantial economic expansion to the year 2000, for the Boston Metropolitan Region, with improvement in its ranking, among the Nation's 330 metropolitan areas, from 7th to 6th in the level of personal income, from 15th to 11th highest in per capita personal income, from 6th to 5th in population, and from 5th to 4th in employment. Significantly Boston's office related business and professional services, finance and money management, and communications activities are among those expected to rise most rapidly.

Also, the National Planning Association, a highly regarded private, non-profit research organization, published a study entitled "Employment Growth in Metropolitan Areas 1985-2000" and forecast that the projected jobs gain in the Boston Metropolitan Region (+775,000 to the year 2000) would be second in the Nation in magnitude, exceeded only by the gain foreseen for the Los Angeles Metro Region (+1,032,000 jobs). For the Boston Metro Region, the prognoses of the U.S. Bureau of Economic Analysis and the National Planning Association would represent a one-third expansion in employment, about the same as the 1976-85 increase, but the relative share of employment in office-related business and professional services, finance and communications would rise more rapidly.

THE BOSTON METROPOLITAN REGION COMPARED TO AMERICA'S 330 METRO AREAS

(1985 and 2000)

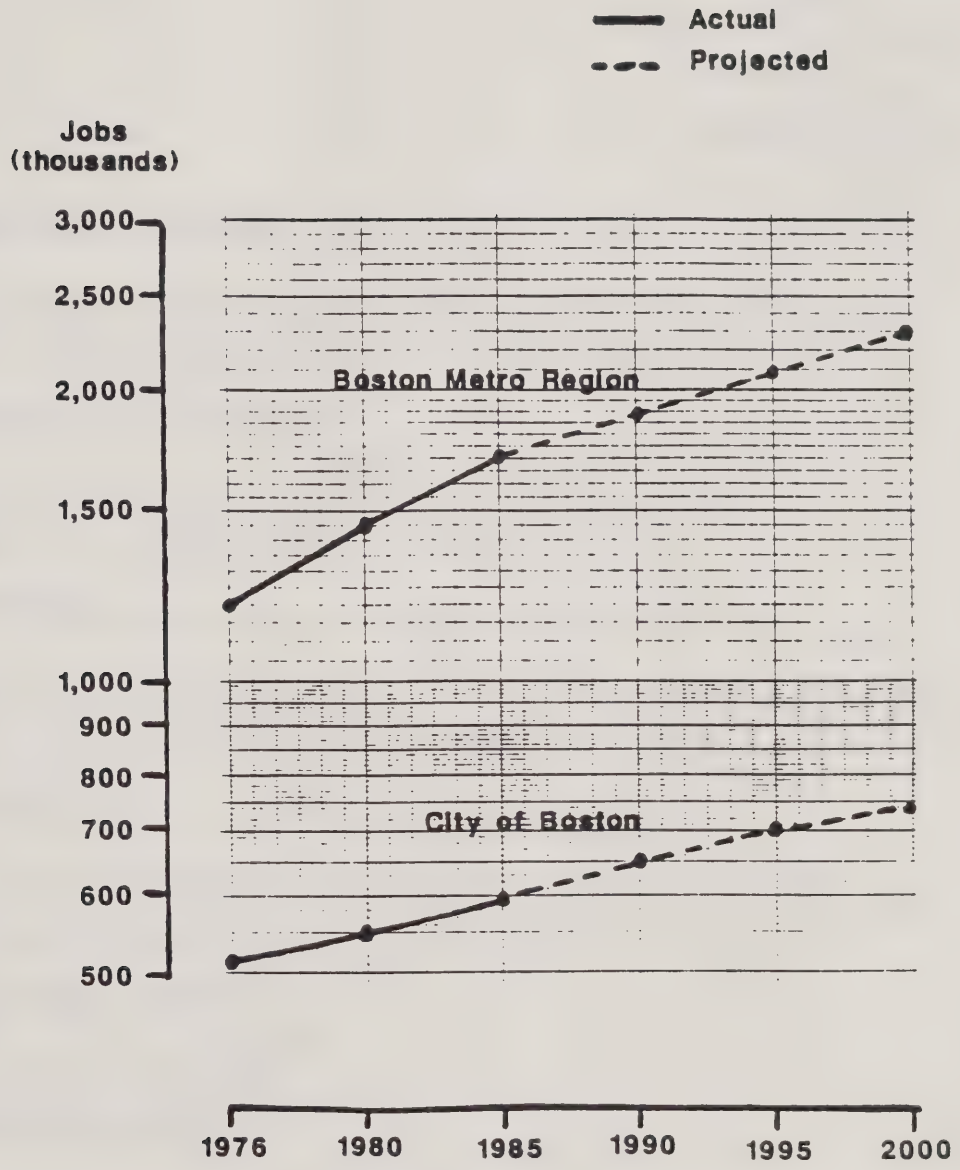


* Equals size of metro economy.

SOURCE; U.S. Bureau of Economic Analysis

EMPLOYMENT IN BOSTON AND THE METRO REGION

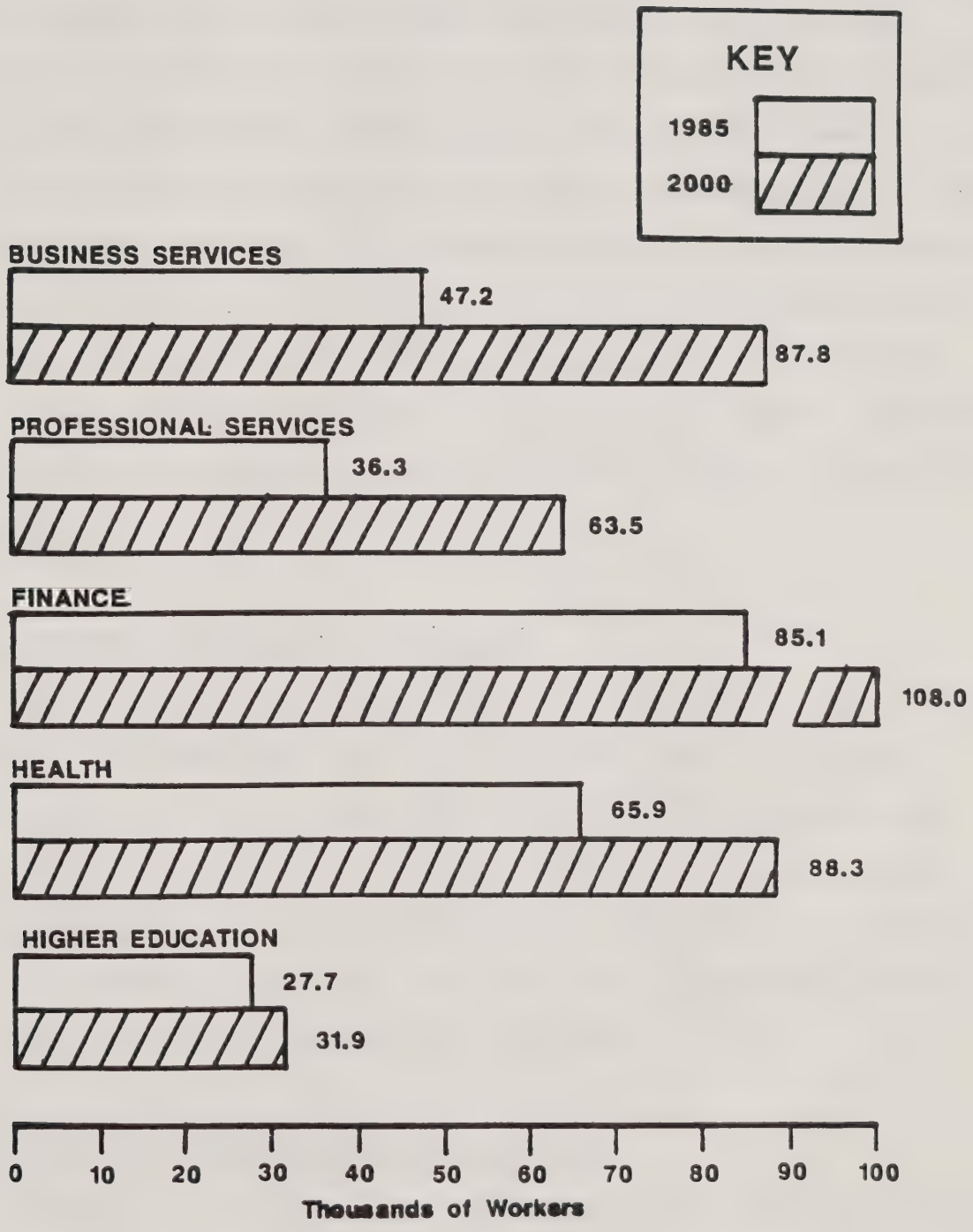
(1976 - 2000)



Source: U.S. Bureau of Economic Analysis

EMPLOYMENT IN BOSTON'S PRINCIPAL SERVICES INDUSTRIES

(1985 and 2000)



SOURCE: Boston Redevelopment Authority

The Boston Economy In The Year 2000

The City of Boston will fare well with its notable recent growth and structural transformation attuning it to the high-grade and high growth sectors of the national and metro region economies. Over the next 15 years, office employers will supply two out of three net new jobs in Boston.

Competitive office space in Boston supported 188,000 workers, in 1985. Projections for employment in office space indicate the number of office jobs would reach 221,000, in 1990, and 288,000, by the year 2000, making up 39% of all Boston jobs in that year. Office employment would require about 67 million square feet of office space, by the year 2000, compared to 43 million, in 1986, and an anticipated 52 million, in 1990, allowing for a margin of vacant space.

Sharing The Metro Market, City and Suburb

In 1976, Boston made up two-thirds of the Class A metro office market of 20 million square feet. By 1986, this market had increased three-fold (to 60 million square feet), Boston's Class A space had more than doubled, but its share of the metro market had fallen to one-half, as the development of the suburban office parks shot ahead. In the next 15 years, however, city-suburban trends will shift, with Boston gaining more than half of the projected Class A increment.

Monitoring Boston's Office Space

An Inventory of Office Space in Downtown Boston

An inventory of Boston's office space, conducted in 1986 as prelude to a survey of the office economy, and representing a sequel to a similar inventory carried out in 1978, attests to the substantial growth and upgrading of Boston's office space in the interim. Upgrading

reflected both the greater ease with which older space could be readied for the market, in comparison with new construction, as well as the upscale trend in business and professional services with its higher grade space needs and related higher office rents. Over and above the net increase of 21% in the city's office space, 1978 to 1986 (the survey years), there was an extraordinary level of rehabilitation and conversion of older space.

Of Boston's 41.4 million square feet of office space, in 366 buildings, as of early 1986, 26.2 million square feet in 94 buildings were judged to be Class A.

The Financial District extended dominates with 65% of all office space, followed by 23% for Back Bay extended, and 12% for the Government Area.

The Class A Office Inventory

To monitor and analyze the office market, and as part of the office inventory and the office industry survey, a Class A "Consensus" list of buildings has been established, taking note of the practice of Boston's principal realtor firms. In this case, Class A comprises 94 buildings (26.2 million square feet of office space) constructed since 1960, renting for $20 a square foot or more. As of early 1986, Class A office space in Boston had an average rent of $29 a square foot.

The Office Industry Survey

The Office Industry Survey is based on an in-depth questionnaire interview of building owners and managers, to elicit information on the building stock, and of tenant firms, to probe into the characteristics of the companies and their employees, by industry and occupation, salary range and residency and commuting patterns. A stratified random sample of owners and managers includes 98 buildings, representing 7.5 million square feet of office space, equal to 19% of the total inventory; the interview stage is complete. The tenant survey covers 25% to 30% of the tenant firms in the 98 buildings. The tenant firm survey interview stage is 95% complete.

Among the findings -

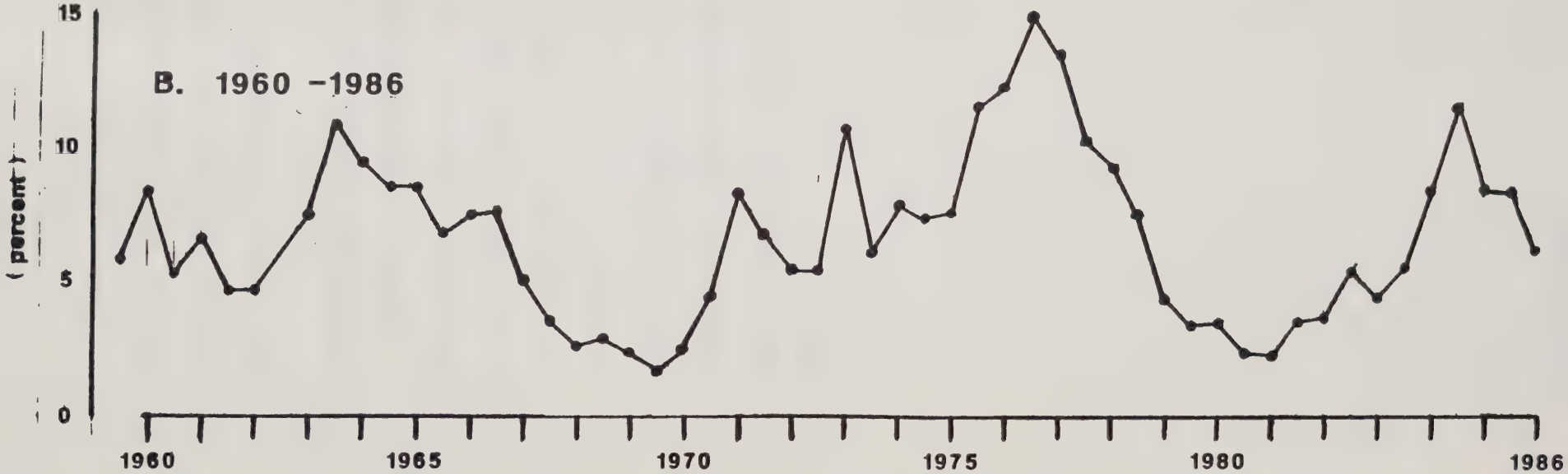
- Landlords are writing shorter term leases, currently ranging from 3 to 5 years;
- Tenants are becoming fewer and larger, occupying available space in their buildings to expand;
- Tenant firm industry composition in the Financial District is dominated by "banking and credit" (35%), financial services (26%), legal services (15%) professional service (6%), insurance (6%), real estate (5%), and business services (4%). Professional and managerial personnel make up 49% of the total, and clerical and other 51%.
- Of the Financial District professional personnel, 21% were lawyers, 18% architects, 11% accountants, 10% sales managers, 9% economists, 2% computer specialists 1% artist, 1% writers/editors.

- In the Back Bay District the range of occupations is more narrowly circumscribed and includes, among professionals, accountants (24%), economists (11%), architects and sales managers (5% each), engineers (3%), lawyers (2%), branch managers (2%), artists (2%), writers/editors (1%).
- Most buildings in downtown Boston are owned through limited partnerships and trust; only one building in the survey was owned through syndication

Class A Vacancy Rates, by Quarter, by Market Segment

Utilizing BRA's "Consensus" definition of Class A office and geographic market segmentation, the BRA has initiated the systematic calculation of vacancy rates, by quarter, by market district. To do this, the BRA computes the weighted average of the total, occupied and vacant space of the Class A inventory (94 buildings as of mid-1986 by market district), drawing on the quarterly occupancy information for each building made available through the courtesy of Boston's principal real estate brokerage firms, to whom thanks and appreciation are expressed. The results, for the second, third, and fourth quarters of 1985 and 1986 (cited in the beginning pages of this report), and a comparison with the findings of Spaulding and Slye, Cushman and Wakefield, and Meredith & Grew, are presented and analyzed in the chapter entitled "Recent and Projected Class A Office Vacancy Rates Downtown, by Market Segment".

BOSTON OFFICE VACANCY RATES, 1934 - 1986



SOURCE: Greater Boston Real Estate Board, Building Owners and Managers Association (BOMA), Office Vacancy Surveys.

This chapter also presents a range of projections of vacancy rates, through 1990, by quarter, based on the known inventory of supply and its schedule, and recent and projected trends in office employment and recent rates of office space absorption (demand), by market district.

How Boston's Realtor Firms View The Boston Office Market

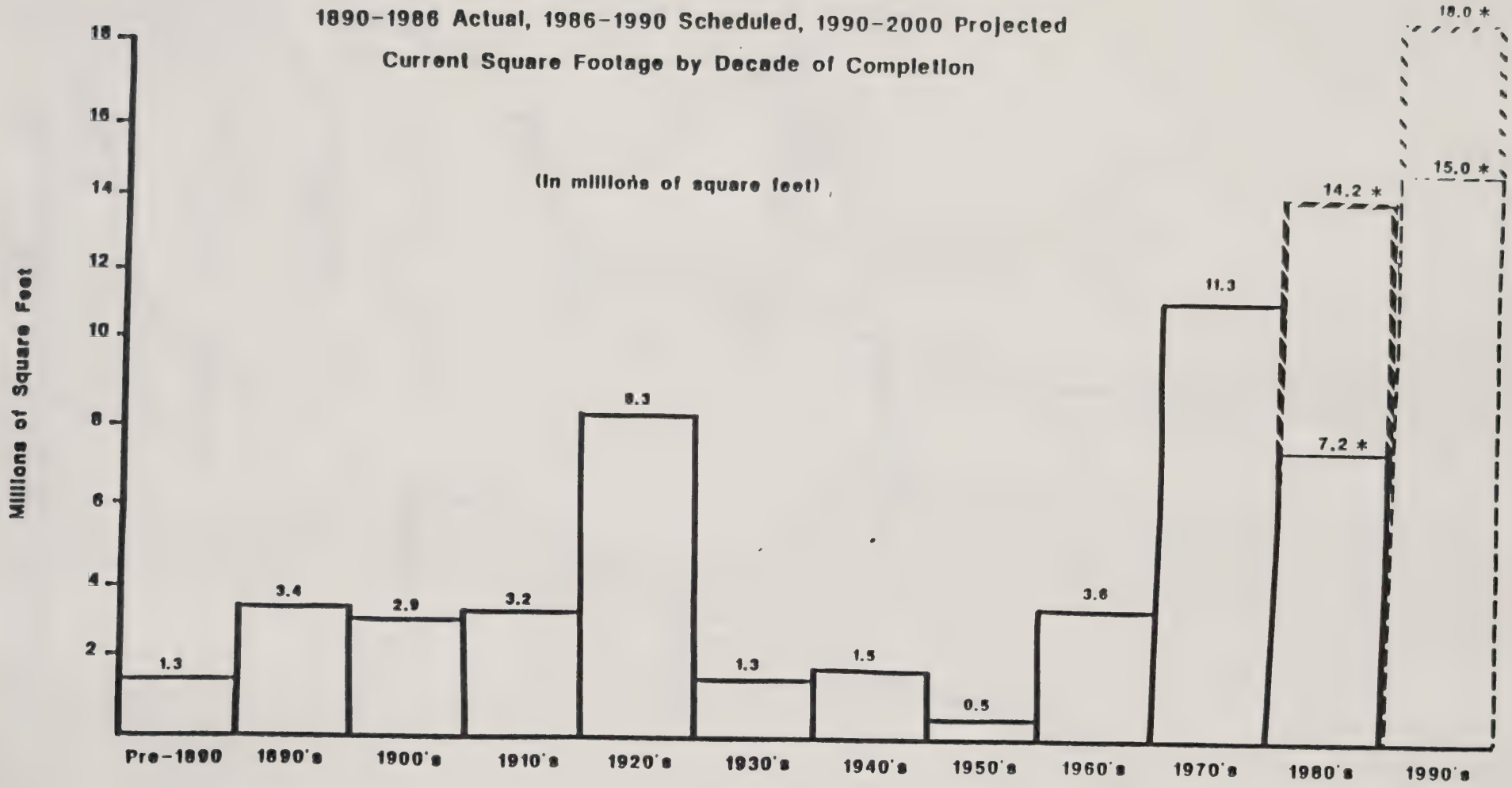
Boston's expanding roster of office brokerage firms issue regular survey reports which vary in coverage, format and timing. Their recent findings, nevertheless, have a common thread: Boston vacancies have been declining, absorption is high and demand is strong. In contrast, the market is judged to be soft in many of the Nation's large cities and suburban areas, and in the Boston Suburban ring. Looking ahead, realtors are noting the anticipated rise in Boston vacancies as five million square feet of office space comes into the market in 1987 and 1988.

Boston's Private Office Space

1890–1986 Actual, 1986–1990 Scheduled, 1990–2000 Projected

Current Square Footage by Decade of Completion

(In millions of square feet)



Note: Includes all privately built class A, B and C office space

Total for 1986 - 43.7 million square feet

Source: BRA Research Department, 1986.

Actual through 1986

Scheduled

Projected, based on employment projection

Projected, based on development trend 1983-8

* Class A

BOSTON'S SOCIO-ECONOMIC HISTORY
1790–1986 Actual and 1986–2000 Projected